

# The University of Nottingham

BUSINESS SCHOOL

A LEVEL 2 MODULE, AUTUMN SEMESTER 2013-2014

## **INTRODUCTION TO FINANCE**

Time allowed TWO hours

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*Candidates must NOT start writing their answers until told to do so*

**Answer ALL Questions in SECTION A**

**Section A consists of 20 Multiple Choice Questions (MCQ).**

**Use the special answer sheet provided to mark your answer. TWO and a Half marks are given for each correct answer. No marks and no penalty are given for an incorrect answer or failing to answer a particular question.**

**Answer TWO Questions in Section B.**

**Questions in Section B are worth 25 marks each.**

*Financial calculators, such as Texas Instruments BA II Plus and Texas Instruments BA II Plus Professional, are permitted in this examination.*

*Dictionaries are not allowed with one exception. Those whose first language is not English may use a standard translation dictionary to translate between that language and English provided that neither language is the subject of this examination. **Subject specific translation dictionaries are not permitted.***

*No electronic devices capable of storing and retrieving text, including electronic dictionaries, may be used.*

**DO NOT turn examination paper over until instructed to do so**

**ADDITIONAL MATERIAL:** Multiple Choice Answer Sheet

### **INFORMATION FOR INVIGILATORS:**

This examination paper needs to be collected in at the end of the examination

No MCQ section can be published

SECTION B (50%)

Answer any TWO questions from this section. Each question is worth 25 marks.

21. As a chief finance officer of a company, you are contemplating a long-term bond issue. You are also considering including a call provision. Discuss the costs and benefits to the company from including a call provision.
22. If a portfolio has a positive investment in every asset, can the standard deviation on the portfolio be less than that on every asset in the portfolio? What about the portfolio beta? Explain your answer.
23. Assume the federal government decides to permanently eliminate corporate income taxes as a means of encouraging economic development and job growth. What effect, if any, would this change have on the evaluation of a proposed project?
24. Assume a fellow student made these statements during a class discussion: "Bankruptcy costs only affect a firm if the firm files a bankruptcy petition with the court. Therefore, the static theory of capital structure only applies to bankrupt firms." Write a response to your fellow student that either supports or contradicts that student's statements.